ESTABLISHMENT OF AN OPTIMUM ACCOUNTING SYSTEM FOR THE ADMINISTRATION OF A SMALL HOSPITAL

A THESIS

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TO

"Chief"

PREFACE

The public accounting profession is one of our nation's highest callings and the practioners in the field seem to find munificent reward in the employment of their skills in the performance of their duties to the best of their knowledge and belief. The accountant, like many others, wishes to earn a living, but remuneration which he receives from his clients never seems to equal the exultant thrill which he experiences from a job well done. Since accounting is the field where I hope to make some small contribution through the application of hard work, at least, this study is done with the hope that it will help some busy accountant, or accounting student, because of its results by furnishing adequate information for the auditing task, or some related task, assigned to him by a like enterprise.

As a general rule, those persons who belong to the same ethnic group of which this writer is a member have learned to operate their businesses, more or less, by the trial and error method. They have not been exposed to the principles of business organization and operation. It is, therefore, hoped that several such studies will be made of the various types of businesses in our area toward the end that more and more of our businesses will be able to afford adequate accounting systems, even if most of them must be categorized as "small."

The idea for this study was born out of my profound respect and admiration for my friend and employer without whose help and patience

this study could never have been completed. His constructive criticisms, guidance in class and out, and especially the time given from my regular employment to make the study will always be remembered with heartfelt gratitude. So to Jesse B. Blayton, Sr., Certified Public Accountant, Carnegie Professor of Business Administration, Atlanta University, my counselor and very good friend, I respectfully dedicate this study.

This writer is indebted also to Professor J. Petrof for his assistance in advising and reading the material compiled for this study, to Mr. Paul Sherman for his assistance in collecting some of the secondary data, and to my very patient family and the many others who encouraged me to complete the study.

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CHAPTER I

INTRODUCTION

When one walks through the swinging doors, enters the corridors of a hospital, is greeted by the smell of alcohol and ether, and envisions men and women in white, little does one realize that behind all of this and the tremendous concern for reducing human suffering, is a small cog in the huge wheel of operations known as a business office. Here the hospital administrator and his staff work many hours with the accounting records of this organization to guide the paths of all those concerned with the operation of the hospital. One of the preeminent tools employed by the administrator to increase retained earnings for the stockholders and for the expansion of the plant facilities and services of the enterprise is the accounting system. This system can be used effectively or ineffectively in the overall process. The accounting system, then, becomes the yardstick for financial planning for the enterprise. It is to the problems involved in the planning and installation of such a system that this writer directs her research.

Relationship of the Accounting System to Effective Management.--The mainspring of management is total information. Management needs all the facts concerned with an enterprise and needs them fast. Management must depend on these facts for their accuracy and employability in the planning, organizing, directing and controlling the enterprise. This he does by employing men, money and machines.

Management, to be effective, must plan, organize, direct and control the workers in the enterprise. Further, another management function is the protection of the enterprise. This protection does not only include the protection of the physical assets of the enterprise, but its workers, reputation of the enterprise and the position of the enterprise with others similarly located.

The hospital administrator is not immune to the qualities set forth above. He should be able to perform these functions well in order to enhance his position with the enterprise, the position of the enterprise in the community of its location and to assure for the enterprise peak efficiency. The success of this type of enterprise lies in the request for the services of the unit. He must depend, in a large measure, upon the technicians, the doctors, nurses and other specialists, in his enterprise, but the proper functioning of these technicians rely in a large measure upon the activities in the office of the administrator. It is the opinion of this writer, and that of at least two practioners in the field of public accounting, that a paramount aid to modern management is an adequate and workable accounting system. An effective accounting system should provide useful financial data for management to use to protect the assets and resources of the business unit.

In all small businesses, the managerial function is of paramount importance. This is substantiated by statements made in analysis by Dun and Bradstreet of the reasons for failure of small businesses which states in essence that in most cases failure points clearly to inadequate management. Small businesses usually do not have and cannot

afford specialized staff services that larger companies have.[1]

Notwithstanding the fact that the hospital's first duty is to repair broken bodies and minds, it is a business organization and the accounting system is important to the effective functioning of the hospital as a business unit. One authority states that:

> Many individuals have deplored the lack of uniformity of accounting systems as well as the lack of adequate systems in hospitals. One individual prominent in hospital administration work says: 'At the present time, it is extremely difficult to arrive at fair comparison of costs and other statistics because of the wide variation in methods of accounting in different hospitals.'
> The absences of proper accounting methods in hospitals can probably be traced to the lack of proper training and understanding on the part of both administrators and clerical personnel.[2]

The same authority quoted above mentioned in the foreword of his textbook that many graduate schools in the field of hospital administration having recognized the need for a knowledge of accounting on the part of the administrator has incorporated in their curriculums precise instruction in accounting for hospitals.

In a complex society such as the one in which we live, the business function is all important. The hospital, as a business unit, then, cannot, and must not, if it wishes to survive in a competitive society, isolate itself as requiring mediocre management. For many years, the quest for adequate management services in hospitals were overlooked. People were given the task of managing hospital enterprises as business units without regard to whether or not they had been trained for the

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1 Wellington, Rogle, C.P.A., "Management Services - A Challenge to the Profession," Journal of Accountancy, (October, 1958), p. 54.

2 Martin, T. Leroy, Hospital Accounting, Principles and Practice (Illinois, 1951), pp. 1-2.

job. And even today, a great deal of the management function is designated as the job of the accountant for the enterprise. This person is usually employed on a retainer basis.

It is, however, the job of the administrator to bridge the gap between the medical side of the hospital and the production of net profit for its owners. The accounting system becomes the foundation for the building of this bridge. It is an avenue for communication of the two sides of the hospital. In most cases, the administrator is charged with the direct responsibility for administrative and management services. It is of paramount importance that the authority given to the administrator, based upon sound organizational principles, accompany such other basic principles as to ensure the administrator's handling of the responsibility assigned to him. Then he can use his office to make proper delegation of duties to department heads and other employees upon whom, after all the smoke is cleared away, results in proper patient care.

In the mind of management always should be the desire to manage for a purpose. During the period of research for the writing of this report, one author stated precisely the responsibility of effective management. His statements are quoted hereinafter:

> To manage a business in accordance with such a purpose requires more than good intentions and a benevolent spirit. It requires also a high degree of managerial skill and intelligence. A philosophy of management which recognizes its full responsibility on the one hand and seeks the highest degree of business efficiency on the other constitutes our chief hope of economic progress and security.[1]

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[1] Heckert, J. Brooks, Accounting Systems Design and Installation (New York, 1936), p. 3.

Function of An Accounting System.--An accounting system should have as its main purpose the supplying of information to the management, his superiors and subordinates, which will ensure, insofar as is possible, the effective operation of the business unit. The system, then, should aid management in planning, organizing, coordinating, controlling and protecting the enterprise. The system, while not necessary elaborate, should provide whatever information is needed as economically as possible. The system should classify accounts, (see, also, Chapter III - Design), spell out operational procedures through the use of an accounting manual and make possible the presentation of reports which are reasonably accurate.

The accounting system, also, furnishes accounting data which will serve as a measurement of adequate performance of the unit. In this connection, the accounting system becomes the yardstick for the measurement of the broad goals and objectives of management. Without the accounting system as a tool, this would hardly be scientifically possible. The ultimate effect of every business transaction for the business unit is traceable through its accounting system. Without the accounting system, it would seem to this writer, that the business unit would flounder about as the old sailors out to sea without the use of the compass. They relied heavily upon signs of nature and the forces of nature to lead them to their destinations. In this day of technological advancements and businesses being operated in a highly competitive society, one would be lost with such guesswork devices.

The accounting system becomes a scientific tool to guide the proper functioning of a business unit. It has its built-in system of checks and balances which will aid in the planning, organizing, directing,

controlling and protecting the progress and expansion of the business unit. Anything less than an adequate, or optimum, accounting system for a small business unit would seem to this writer an invitation to chaotic conditions for management and its enterprise. "One of the chief aids to management in the successful execution of its task is modern accounting and control methods. ..."[1]

Further, with the many strong requests from governmental authorities in connection with reporting on the activities of a business unit, both large and small, it is hardly possible to intelligently comply with such requests without an optimum accounting system. Many of these requests, of which most of my readers will be acutely aware, move from the realm of "requests" to the realm of "mandates." One, then, does not have the right to decide that he will, or will not, submit such reports as are requested by governmental authorities. The business unit receiving such requests will submit reports or it will have to close its doors and no longer operate.

In the last decade, the Internal Revenue Service, for example, has trebled its staff and increased its machinery for checking to see if business units file proper and timely income tax returns, 940 forms (reports relating to unemployment compensation for employees), and 941 forms (reports to the social security administration). Current trends in this particular field would suggest that this increased proficiency on the part of the Internal Revenue Service will not decrease, but will increase. Further, through the use of data processing machines which are becoming rather commonplace, this particular branch of the government

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[1] Ibid.

and its other branches, will be able to adequately check more business units than ever before. Without an adequate accounting system, the business unit, and especially the small business unit which cannot afford the type of staff and machinery used by the larger business units, cannot survive. To have less than an optimum accounting system for the type of business units under study, would really seem very foolhardy, in this writer's humble opinion. The accounting system, in this connection, would save many cost dollars for the owners of the enterprise.

The accounting system employed properly is at least a scientific approach to the communication of useful business data to employees, management, owners, creditors, taxing authorities, regulatory bodies and the general public. It furnishes accumulative data which is most useful in decision and policy-making principles. The system furnishes historical data which will enable the executives an enterprise to project, through the use of cash-flow budgets, the latent possibilities of the enterprise. The small business unit through its accounting system, then, can enjoy the same rights and privileges as the large business units to such data. The basic right of communication through accounting records and data is not the reserved right of big business, but can be had by the small business through the establishment of an optimum accounting system.

Lasser, a certified public accountant, states:

> Accounting has often been called 'the language of business.' It is a universal language which helps knit together the workers and industry, the government and its citizen-taxpayers. It translates social concepts into the lexicon of business and makes business express the hum of industry in symbols universally understood.
>
> But more than this, the accounting system is the key to positive business control. It is the central nervous system of business. It provides the sensory apparatus to inform the brain of business; it is the means by which business brains translate thought

> into action. Intelligent and successful management does not consent to be limited by 'uncontrollable' factors. With the proper means most of them are often found to be quite controllable. Accounting seeks to control many apparently random and uncontrollable factors in business.
>
> The properly designed accounting system, under competent direction, will seek to avoid leaving anything to chance.[1]

Accounting is an art and a science. Properly used by the business enterprise, it can become the two-edged sword to cut through the maze of activity concerned with the operation of a business enterprise. The accounting system can decidedly, based upon research done by this writer, make or break an enterprise. There is a positive correlation between the accounting system, which is adequate, of an enterprise and the ability of the enterprise to progress or retrogress.

The accounting system becomes the effective parent guiding and controlling the enterprise in its opportunities for effective functioning and giving to the enterprise the following things:

1. A device for the recording of business transactions.
2. A means for safeguarding the assets of the enterprise.
3. A means for controlling the operations of the enterprise.
4. A liaison-media for the acquaintance of the facets of the community and the business unit.

In actuality, the functions of the accounting system, in this writer's opinion, become synonymous with those for effective management.

The various accounting records which are kept to collect, classify and summarize the information needed by the several interests in an enterprise represent an application of the accounting technique. Adequate and appropriate accounting records are essential to the maintenance

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[1] Lasser, J. K., Handbook of Accounting Methods (New York, 1943), pp. 1-2.

of the business unit and the system of internal control for it. The accounting system establishes, at least, a record of the quantity of an asset entrusted to a custodian and makes it possible to hold him accountable in terms of specifics; subsidiary ledgers listing investments makes it possible to control income from these investments; the cash receipts journal, or its equivalent, makes possible the avenue for the checking of receipts against bank deposits; and in the case of keeping track of the assets and liabilities of the enterprise, the accounting system and its related procedures is a direct course. This same accounting system, also, ultimately keeps track of the net equity for the owners of the enterprise.

Here, your attention is called to the fact that because of the many complexities in modern business and because all enterprises wish to expand their services and facilities, any system should be adaptable to various changes. Even in the case of the small business one should keep in mind when installing an accounting system that the system should be easily adaptable to move from a manual one to a mechanical one. After all, the bookkeeping machine, in our present economy, is as commonplace in the small hospital units as the overworked, "pencil-behind-his-ear" bookkeeper was in the early 1930's.

Definition of the Problem.--The accounting systems, notwithstanding the inadequacies of the systems, were studied for two small hospitals. The writer assigns the meaning for the term "small business" as it relates to the hospital units studied. The meaning then this writer will use for a ceiling the following criteria:

1. Hospitals having less than 60 beds available for occupancy.
2. Hospitals having gross receipts on an annual basis for

services rendered of not more than $275,000.00.

3. Hospitals having an employed staff of not more than 40 persons.

4. Hospitals having one administrator.

The problem involved in this study concerns itself with two small general hospitals operating in a highly competitive metropolitan area. The study was made through the observation method. Respondents knew that they were being observed and why such observations were being made. This researcher spent fifteen hours each week for four weeks at each institution. Conferences were held with the administrators of each hospital and the systems in use were analyzed in great detail. The research person was given full access to the accounting records. The members of the staff concerned with the maintenance of such records were interviewed. Department heads in each division of the hospital units were interviewed. In conferences held with these department heads, a great deal of information was compiled. All of the department heads were most cooperative and interested in an accounting system which would facilitate the work in their respective departments. In both cases, in both hospitals, that is, more than fifty per cent of the answers given by the respondents suggested that many man hours were spent in the compilation of various reports necessary for hospital authorities. The respondents, in this writer's opinion, were capable of performing the tasks necessary for the effective compilation of such data as was required from time to time, but were lost as to methodology. The fallacy, then, seem to lie not in the maintenance of the records, but in the fact that there was not an adequate double-entry bookkeeping system in use and that there was no orderly procedural design.

Neither unit studied had an organizational chart or manual of accounting procedure. The major responsibility for accounting records in both hospital units had been placed with the administrators. Neither of the administrators had any formal training in accounting. Assignments, usually those concerned with clerical procedure, were distributed to various stenographic clerks. Some of these clerks were employed on a part-time basis.

The facts compiled from conferences will be discussed in the chapter which follows, but my problem was clear-cut as it related to the establishment of an optimum accounting system for hospitals which we have categorized as "small." Both of the units studied were closely akin to one another in operation. Both units derived the major portion of its income from in-service patients. Both of the units had out-service patients, but these were relatively few in number when compared with the time spent serving in-patients. Revenue received comparisons will quickly reveal that out-patient services contributed only negligibly toward total revenue.

CHAPTER II

PROBLEMS FOUND IN SYSTEM BUILDING

Information Required.--In the building of an accounting system for any type of business enterprise, public or private, many problems confront the designer of the system. Unlike an artist, who moves from the subjective to the objective in painting a picture, the designer of an accounting system concerns himself with hard cold facts. The facts will be discussed here under the heading, Analyses of Primary and Secondary Sources.

The systems man will find that here know-how pays off. The new system, or expansions on the old one, will be derived from the specific objectives and needs of the activities of the business unit. His system must perform the changeover, introduce required information and familiarize the staff of the enterprise with new procedures. Here the accounting manual which accompanies the system helps greatly in smoothing out some of the problems which occurs when a system is designed and installed. All of the problems, however, cannot be solved with the manual, some of them will be discovered only through the use of the system.

The present day practioner in the field of public accounting receives many requests for installing systems and revising old systems. In fact, much more of the work of the certified public accountant is being directed toward consulting with management on the problems of

system building.

The system designer should seek certain information in the building of a system for any enterprise. Some of these things are:

a. What is the history of the organization?

b. What is the nature of the business of the enterprise?

c. What type of business organization, that is, what kind of legal entity is used by the organization?

d. Who is responsible for executive management?

e. How many employees does the unit have?

f. How many business locations? Where are they located?

g. How may the present accounting system be generally described?

h. How is the business departmentalized at present?

There are, of course, specific questions which must be answered. The following questions will illustrate the type of questions used in the study of the hospitals during the period of observation.

a. What methods do you employ in the handling of cash receipts and cash disbursements?

b. Who handles credit for the institution?

c. Who orders supplies for the institution?

d. Who replaces equipment, or rather, makes the decision to replace capital equipment and to what person is the actual ordering of such equipment assigned?

e. Is someone responsible for ordering food for the unit?

f. Is someone responsible for food, laundry and linen stores?

g. What personnel is responsible for admissions and dismissals?

It is hardly possible that one person could perform all of the tasks effectively, but in each case the answer was the administrator.

In drafting a design for a particular enterprise, the designer should keep in mind the things that are peculiar to the type of unit being studied. No standard questionnaire could be drawn up to fit the needs for investigation and design of all systems. Many general questions, such as those set out on page 13, would appear on questionnaires for all types of business organizations, but many items will be drawn up because of the inadequacies found from the observation of the system already in use.

Many of the questions which would be ordinarily asked by the designer of an accounting system for the two hospitals under study were unnecessary as the researcher found the answers to these questions through the very thorough examination of records already in use. Also, the research person had the opportunity to assist in the preparation of income tax returns for both units on many occasions. Notwithstanding this familiarity with the records of the enterprises, their present accounting systems, the employees who would be using the new system and the hopes and expectation of the administration should be studied by any designer and they were.

One of the problems confronting the designer of any system for any enterprise, and the one which seems to give the most trouble, is that of trying to cope with the human element involved. The human beings who will be using the proposed system. Here the underlying theory of resistence to change by the employees of an enterprise truly asserts itself. The designer's handling of this problem will be discussed in Chapter IV.

The designer asked for an organizational chart for the units. Neither unit could furnish this information. The designer then decided that such a chart should be in existence and listed this as the first job in connection with the designing of the systems for both hospitals.

Preliminary Survey.--In our preliminary survey, we analyzed the books of original entry, the books of final entry with particular emphasis being placed on non-cash journal entries and the relationship between the controlling and subsidiary ledger accounts. We did this, insofar as was possible, as most of the books of final entry were never used and when they were used, the entries were in most cases incorrect.

Further analysis of the primary sources revealed the following inadequacies. These inadequacies are listed to show that both these units were sorely in need of a workable accounting system. In fact, the items listed were present in both units to a large degree. Both units studied were corporations. The unit referred to as Hospital A was designed to earn profits for its stockholders while the unit referred to as Hospital B is a non-profit corporation.

Some of the inadequacies discovered were:

1. No entries were made for non-cash transactions.
2. No effort was made to keep controlling and subsidiary accounts in balance.
3. Statements were mailed and prepared on a guesswork basis.
4. Summaries of transactions were made only once a year to prepare income tax returns.
5. No statistical method had been evolved to change the accounting system's method to effectuate tax savings for the enterprise.

6. Advances to officers and directors were not broken down as to distribution to the respective officers and directors.
7. Many assets in the records were actually not traceable to the items. Debits in the records called "Other Assets."
8. Payroll subsidiaries were not in use in spite of the fact that the average number of employees on an annual basis was 37.5, or 38, persons.
9. Reports to governmental authorities regarding salaries often took weeks to prepare and then were often incorrect and had to be revised.
10. Deposits to Federal Depositories for income and social security taxes withheld were made on a "guesstimate" basis.
11. Discrepancies between reports to governmental authorities and individual employees regarding summary payroll figures were incomplete in approximately 25 per cent of such cases studied.
12. Management tried to do all record keeping and to supervise that which he could not do.
13. No inventory of food purchases was maintained. Inventories of linens and medicinal supplies were handled in a like manner.
14. Reports to the Board of Directors were made only once a year.
15. No accurate statistical records were maintained of patients dismissals.
16. Bank reconciliation were unheard of and deposits were made when necessary and not in tact. Many checks received for services rendered were often not deposited for months and some of them were actually lost, when this discovery occurred,

they had to be replaced. Many checks were returned for reason of "stale date."

There were other inadequacies, but at least these were common in both units studied.

These units received their cash receipts mainly from hospital claims paid for individuals admitted to the institution by their respective insurance companies and the State of Georgia for services to crippled children. Only a very small percentage of receipts were derived from out-patient services. No special effort had been made to increase the hospital's revenue through advertising. Only institutional advertising in church and school bulletins had been used prior to the time of the study to bring additional revenue into the units.

Table I, which is shown on page 18, is included in this report to show statistically, and as briefly as possible, the hospital's activities; especially as these activities related to total number of patients by classes, percentage of occupancy, cost of services rendered and the like.

A brief study into secondary data relating to hospital units made it possible to compare the statistics shown in Table I. A study made of a Michigan hospital with a bed complement of 28 revealed the following facts. The percentage of occupancy for the hospital was 71.1, the average length of stay was 9.7 days, the total number of in-patients was 748, the total number of in-patients treated was 941, and total income from all sources was $39,455.87. Total expenses attributable to in-patients was $31,823.62 and to out-patients was $7,632.25.[1] This

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[1] American Hospital Association, Hospital Accounting and Statistics, (Chicago, 1940), p. 151

TABLE I

STATISTICAL COMPUTATIONS SUMMARIZING HOSPITAL ACTIVITIES FOR THE YEAR ENDING DECEMBER 31, 1961 FOR THE SMALL GENERAL HOSPITALS UNDER STUDY

Descriptions	General Hospital A	General Hospital B
Total Number of In-Patients	823	761
Total Number of Out-Patients	1,341	769
Total Number of Beds Available for Occupancy	57	50
Total Number of In-Patient Days Available	20,755	18,250
Actual Number of In-Patient Days	13,906	12,505
Actual Number of New Born Infant Days	320	218
Total Number of Out-Patients Visits*	3,624	1,877
Actual Number of Out-Patient Days++	151	78.20
Percentage of Occupancy	66.7 %	74.2 %
Total Revenue Received:		
In-Patients	$ 262,182.90	$ 188,642.60
Out-Patients	4,848.00	3,208.00
Total Cost of Operations:		
In-Patients	$ 244,431.76	$ 172,565.83
Out-Patients	2,718.66	1,041.64
Average Cost Per Patient Day:		
In-Patients	$ 17.44	$ 13.71
Out-Patients	18.00	13.35
Average Cost Per Out-Patient Visit	$ .75	$ .55
Average Length of Stay (days)	15.4	16.03

*Some out-patients returned to the hospital several times for treatment. Each out-patient is counted only once under number of out-patients, but each visit is enumerated.

++Out-Patient Days were calculated on presumed basis of one hour to each out-patient per visit.

NOTE: Neither hospital would consent to the use of its name; hence, alphabets were used to show distinction.

was a very old study made in the year 1939. A more recent one which was made for the year 1952 for the entire United States the following facts were revealed to show the tremendous growth in hospitals. There were 5,652 general hospitals in the United States, with 719,115 beds available for occupancy, average length of stay was 10.5 days, the rate of occupancy was 74 per cent (average).[1] These statistics relate only to general hospitals which fall into the same class as those under study by this writer. They do not include specialized hospitals. The ownership of the general hospitals in the United States was: Non-profit - 55 per cent, state and local governments - 19 per cent, proprietary - 20 per cent and federal - 19 per cent. In the proprietary category of ownership, it is called to the reader's attention that these hospitals had an average bed capacity of 40 and cared for only 8 per cent of the total admissions by all general hospitals in the United States.[2]

Some hospital authorities state that hospitals with a bed complement of 40 and less cannot economically care for the ill, but without these small units, many of our sick would go unattended. While the hospital statistics shown above are not wholly comparable with the ones derived from this writer's study, they are at least similar. Here the reader's attention is called to the fact that all of the hospitals were classified as general, all had less than sixty beds, all of them furnished care for in-patient and out-patient services. This writer will strive toward the development of the same type of information in the designing

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1 Mayes, John H., Factors Affecting the Costs of Hospital Care, (New York, 1954), pp. 6-7.

2 Ibid.

of an accounting system for the hospitals under study.

Authorities who do research in the area of hospital statistics state that there is not much information available on the hospital units with fifty beds and less for the reason that hospitals of this size do not have adequate medical and other records for the compilation of such data as would be required to give an accurate picture. They, also, state that because of the varied methods of record keeping on the part of hospitals of this size, the findings would probably be distorted.

The designer of the proposed system resulting from this study had to interpolate many of the figures shown in the table on page 18 of this report. It would have been impossible to accumulate such data directly from the hospitals' records.

CHAPTER III

OUTLINE OF THE SYSTEM

Design.--In the preliminary survey, the systems man should study the organizational chart for the business unit. In this study, there was not in existence an organizational chart in either of the units studied. Growing out of conferences with management, information compiled to formulate the accounting system and a directive by the management, the organizational chart set out in this chapter was derived. It was, in this writer's opinion, the best possible way to give the designer of the system a better insight into effective operations for the two hospitals under review. Further, J. K. Lasser, prominent certified public accountant and author, states:

> The organization chart will give a graphic picture of the ranking authority within the business, the functions of individual departments and their interrelationship to each other and the management, and the flow of work activity.
>
> A careful study of the organization chart and the notes that the systems designer will have made from his inspection of the office, the plant, equipment, facilities and the physical properties, together with the notes of conversations with executives and department heads will probably now suggest many changes in procedure. This certainly will be true in instances where the need of systemization was so apparent that the systems expert was called in to remedy the situation.[1]

Because of the size of the hospitals studied, the systems designer's first thought was that the best type of organization would be

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[1] Lasser, J. K., Handbook of Accounting Methods (New York, 1950), p. 33.

the "line organization." This for the reason that this type of organization has many more advantages than disadvantages for the smaller size business unit.

There are three distinct types of organization structures for business units. There are: (1) the line structure; (2) the functional structure; and (3) the line-and-staff structure. Organization structure in a business unit must be present since it is that means by which a group of individuals work together effectively toward a common goal as if they were one individual. The organization may be informal or formal. Both units studied had some informal organization, but neither had formal organization. This writer firmly believes that subordinates in a business unit should, and must, report to some preordinate. This is commonly referred to as the lines of authority and lines of responsibility. The designer of the system to be evolved from this study set out to give to the units formal organization through the establishment of an organization chart, hereinafter referred to as a "table of organization."

Since the consultant and the counselees (management and the department heads) felt that the flow of authority and instruction should be direct, it was agreed that the line type organization structure would be best suited to these units. The flow of authority and instruction would be traceable in an unbroken line from top management to the individual workers. That is, each person would look to his preordinate for aid, assistance and direction should it be required. Also, with this type of organization, the responsibility for performance could and would be, traceable to one individual.

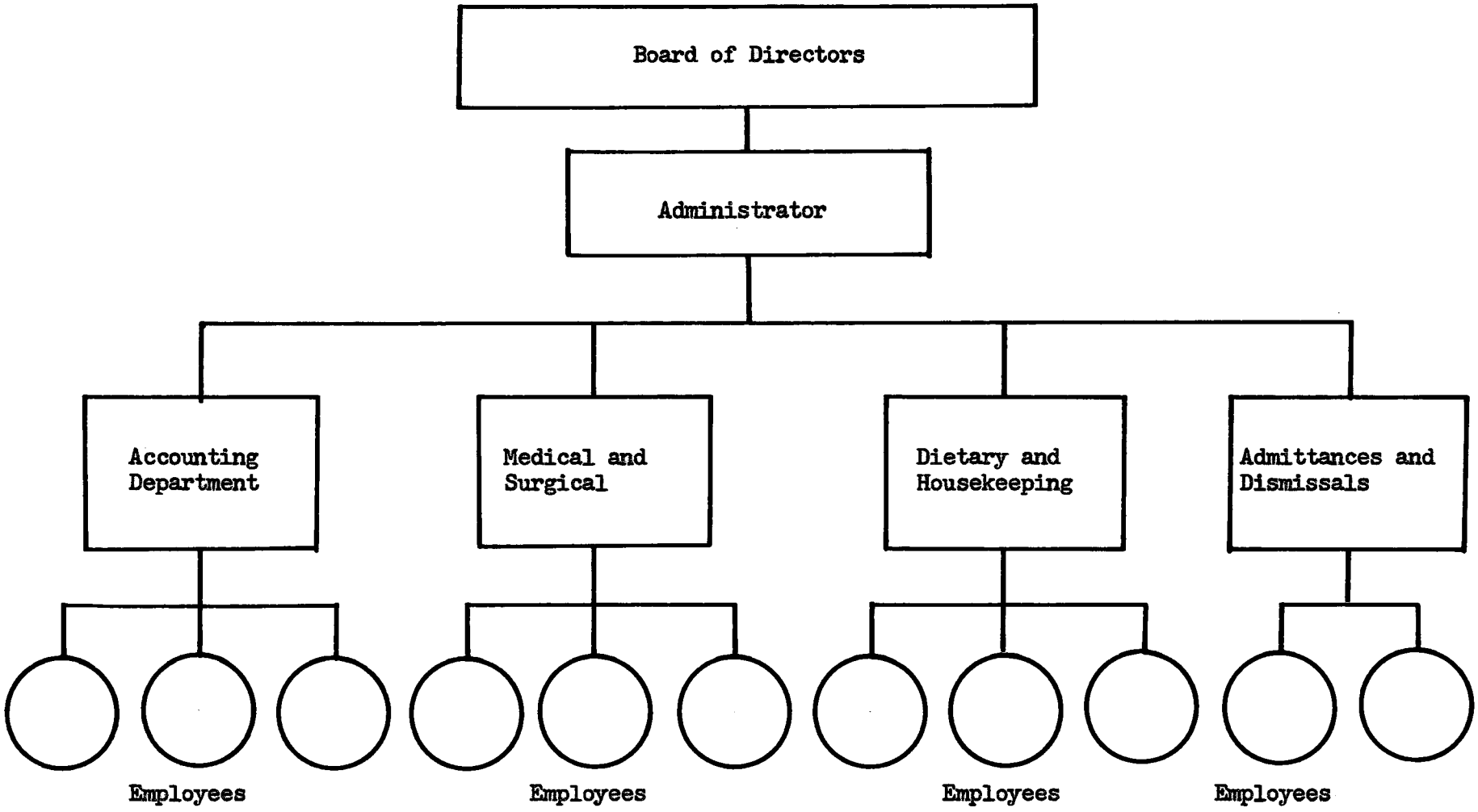
On the other hand, and because the administrators of both hospitals

expected the units to expand in the next few years due to the in population in the area of location, and yet have single accountability preserved, the line-and-staff organization structure was discussed. In an effort to effectuate the system with the least possible trouble to those involved, the line organization was chosen. Therefore, the table of organization shown on page 24 is done in anticipation of a line organization. It is hoped that the operational procedures will follow this type of organizational structure. Should the units outgrow this line type structure, it could be easily changed to the line-and-staff type organization.

After reviewing the table of organization shown on page 24, the reader is reminded that the organizational structure is only the beginning, since human beings are involved in the operation of a business. In order, therefore, for an organizational structure to be effective, there must be well-qualified personnel in all "key" positions; each of these individuals must know exactly what is expected of him, the entire personnel must have a capacity and willingness to work together efficiently and cooperatively toward a common goal. This cannot be overemphasized.

Classification of Records.--Immediately following the formulation of the table of organization, the designer set about to establish other pertinent data necessary to the accounting system. The reader must bear in mind that the system to be designed and installed is a double-entry bookkeeping system for small general hospitals. It is hoped that this system with its checks and balancing principles will make for smooth operational procedure and the best possible internal control. It is, also, hoped that by the use of this double-entry system

TABLE OF ORGANIZATION



The organizational is line, while functions are line-and-staff.

emphasis and importance will be placed on order and organization in the use of all records involved in the system including all invoices, requisitions and other memoranda data which will be employed in the system.

The second step, then, in the design of the system is to establish a chart of accounts. The classifications set out below were decided upon in light of the facts compiled during the study of the history of the enterprises and the overall goals and objectives of management employed by the enterprises. These facts were brought to light in conferences held with this management. The outline showing the account titles and account numbers is set out hereinafter:

I. Assets (100-199)

A. Current

101 Petty Cash
102 Cash in Banks
103 Inventory-Supplies
104 Inventory-Food
106 Accounts Receivable-In-Patients (Private)
107 Accounts Receivable-In-Patients (Governmental)
108 Accounts Receivable-Out Patients

B. Investments

115 Stocks
116 Bonds
113 Other

C. Fixed Assets

120 Land
121 Buildings
121-A Reserve for Depreciation-Buildings
122 Equipment, Machinery and Furnishings
122-A Reserve for Depreciation-Equipment, Machinery, and Furnishings

II. Liabilities (200-299)

A. Current

200 Accounts Payable - Dietary
201 Accounts Payable - Pharmacy
202 Accounts Payable - Other
203 Notes Payable Due in One Year

B. Long Term Obligations

210 Notes Payable Due After One Year
211 Mortgage Payable

III. Net Worth (300-399)

A. Surplus

300 Paid-In surplus
301 Retained Earnings

B. Capital

304 Capital Stock - Common+
305 Capital Stock - Preferred+

C. Other

310 Profit and Loss Summary+

IV. Income (400-499)

401 Services-In-Patients (Private)
402 Services-In-Patients (Governmental)
403 Services-Out-Patients
404 Miscellaneous

V. Expenses (500-599)

500 Salaries
501 Food (Dietary)
502 Hospital Supplies
503 Medicines (Pharmacy)
504 Utilities
507 Anesthesia-Fees
508 Anesthesia-Supplies and Expense
509 X-Ray-Salaries and Fees
510 X-Ray-Supplies and Expense
511 Laboratory-Salaries and Fees
512 Laboratory-Supplies and Expense
513 Taxes - Payroll
514 Taxes and Licenses
515 Depreciation Expense-Building

+These accounts would be unnecessary for the non-profit hospital unit.

516 Depreciation Expense-Equipment, Machinery and Furnishings
517 Refunds
518 Other Miscellaneous Expenses

The above listing in essence will be the chart of accounts. The numbering system assigned is flexible enough to allow for the introduction of new accounts in each category should this become necessary. The account titles and numbers assigned to each classification were made to aid the bookkeepers in their account classification. My reader's attention is called to the fact that each account category has for its first digit the section of the general ledger into which the account would fall. This numbering system is based primarily on the fundamental accounting equation for double-entry systems, Assets equal Liabilities plus Proprietorship, adjusted to also accommodate revenue accounts, i.e., assets (1), liabilities (2), net worth (3), income (4), and expenses (5).

More important, though, is the fact that each of these units must make periodic reports to the State of Georgia and other regulatory bodies with respect to the cost of serving their patients. Certain specific categories are required for such reporting. The expense accounts listed above are to be used for the orderly processing of the business transactions for the units. However, these institutions must have some cost accounting principles applied in order to adequately express these business transactions in terms of cost. This cost data will be used for the following four general categories:

To furnish information to administrative officials which will help them to manage the institution in the most effective manner;
To arrive at accurate costs to be used in securing adequate and equitable reimbursement for services rendered;
To improve budgeting through the use of adequate and accurate cost information; and

> To permit better reporting to public, legislative bodies, other governmental officials, and various interested agencies.[1]

To this end, then, the designer of the accounting system lists the categories from the Georgia Hospital Cost Statement. To these particular categories an allocated percentage of each expense account classification will be applied. For example, salaries will be distributable to each of the classifications listed below based on a percentage figure determinable by the number of employees in the particular category, wages paid, and time given by salaried personnel in that particular category to the patients of the hospitals, both out-patients and in-patients and the services incident thereto. Therefore, set opposite the categories in the illustration will be the percentage of salaries for reporting purposes, budgeting purposes and other like purposes which should be chargeable to that category.

> The primary division of costs is by 'cost centers.' A 'cost center' is a function, activity, or organization unit for which a segregation of costs is made. All of the cost applicable to a particular cost center are gathered together and the total cost thereof determined. The costsfor each cost center are in turn sub-divided to show the cost for each sub-activity or operation, or the cost for each character and object of expense.[2]

The designer of the systems for the two small general hospitals under study, then, chose to establish the categories listed below as "cost centers."

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[1] Harris, Walter O., Institutional Cost Accounting (Chicago, 1954), pp. 1-2.

[2] Ibid., p. 6.

	Cost Centers	Percentage of Total Salaries Allocated
1.	Administration and General	15
2.	Dietary	10
3.	Housekeeping	10
4.	Laundry and Linens	
5.	Plant Operation and Maintenance	10
6.	Nursing Services	20
7.	Medical and Surgical	5
8.	Pharmacy	5
9.	Operating and Delivery Rooms	15
10.	Medical Records and Library	2
11.	Anesthesia	
	(a) Salaries and Fees (Charged Direct)	
	(b) Supplies and Expense	
12.	X-Ray	
	(a) Salaries and Fees (Charged Direct)	
	(b) Supplies and Expense	
13.	Laboratory	
	(a) Salaries and Fees (Charged Direct)	
	(b) Supplies and Expense	
14.	Social Service	2
15.	Physical Therapy	5
16.	Other Special Services	1
		100 per cent

The designer feels that this type of cost distribution will be quite useful for the business units studied. The reader will note, however, that in some instances direct charges are made to the applicable "cost center."

After the arrangement for the chart of accounts and establishment of the "cost centers" for the new system, the designer decides upon the following books of account.

I. Books of Original Entry

A. General Journal

B. Cash Receipts Journal

C. Cash Disbursements Journal

D. Services Journal

E. Payroll Journal

F. Purchases Journal

II. Books of Final Entry

A. General Ledger

B. Subsidiary Ledgers

1. Accounts Receivable (by classes)
2. Accounts Payable (by classes)
3. Payroll (by departments)

III. Memoranda Listings

A. Fixed Assets

B. Investments

The subsidiary records, and memoranda records, should at all times be perfectly reconciliable with the controlling accounts shown in the general ledger.

Interrelationship of the System, Operational Procedures and Related Memorandum Data.--This section of the formulation of a system is completely and fully described in the Accounting Manual. In the interest of saving space and the reader's time, a broad definition of the manual is included and not the manual per se. Notwithstanding the saving of space and time, some of the inclusions which would ordinarily be listed in an accounting manual are listed in this section. An accounting manual is that book presented to the management of a concern which describes in great detail explicit instructions for the carrying out of the accounting process. A copy of the manual should be provided for at least every key employee. The designer of the system should, and must, orally advise and supervise the new system until it is in full

operation.[1] Moreover, one authority in the field advises that:

> The function of individual employees must be planned in complete detail in order to permit the fixing of responsibility for error, fraud, or neglect. It is also well to bear in mind that employees are always happier, and therefore more efficient, if they know exactly where responsibility begins and where it ends.[2]

Another authority states that there are, at least, three classifications for manuals of accounting procedure and that these are: (1) General handbooks for employees; (2) Manuals of functional or departmental procedure; and (3) Detailed performance instructions.[3]

The type of manual that would accompany a system such as the one being installed for the two business units under study could be categorized into class two listed above. It would then have as its basic information the following:

(a) Rules regarding the use and revision of the manual
(b) Organization of the enterprise
(c) Functions and specific duties of the departments in the enterprise
(d) General methods of procedures for the various departments in the enterprise
(e) Routines pertaining to specific procedures for department heads
(f) Instructions pertaining to forms, records, files, reports, and the like
(g) Illustrative Schedules and Standards[4]

Another authority suggests that the items following, among other things, be included in the manual of procedure:

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[1] Lasser, J. K., Handbook of Accounting Methods (New York, 1950), p. 49.

[2] Ibid.

[3] Heckert, J. Brooks, Accounting Systems Design and Installation (New York, 1936), p. 497.

[4] Ibid.

> (1) Classification of accounts and symbols of the system; (2) Explanation of unusual account titles; (3) Explanation of unusual entries; (4) Report forms; (5) Accounting forms with directions for filing and binding; (6) Instructions for posting, if unusual; and (7) Explanation of unusual routines.[1]

The interrelationship between the accounting system and operational procedure cannot be overemphasized. The entire accounting system depends for its effectiveness on the facts presented to the accounting department by the various other departments in the hospital. Charges are made in all departments for various services. Notations for such charges must be made a part of the chart of the patient so that these charges can be transferred to the patient's ledger card and the services journal. This information becomes the basis for debits to accounts receivable by classes and credits to income by respective classes. Consequently, the department head in the medical services department should be charged with the responsibility of dispensing medicines, bandages and the like. He may, of course, delegate this part of his responsibility to others; yet, he will be held accountable for such supplies. This would be true in the dietary and housekeeping department and other departments of the units under review. My readers can readily see the importance of notations by these departments for the accounting department.

In the cases of food, housekeeping, linens and laundry (and many other cost areas), however, it was decided that a certain amount based on historical cost data available to the accounting department, and trends in the particular areas for cost of purchasing such items, be chargeable to each in-patient for his day's stay. This percentage

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[1] Paton, W. A., Accountants' Handbook (New York, 1948), pp.1234-35.

allocation of cost could also be made for employees' meals, since all employees eat in the hospital units under study without charge.

For the reason that laymen who may per chance read this report and not be able to visualize the books of account, the books of original entry, that is, and their respective headings, the designer of the system feels required to place the design for such books of account in the appendix to this report. This will, at least, give a picture of account books and their respective debits and credits.

CHAPTER IV

INSTALLATION AND USE OF SYSTEM

The accountant who has the responsibility of installing the system should request a conference with each of the department heads before the actual installation. In these conferences, he explains the role of each department plays in the effective operation of the system. He explains that the individuals in these respective departments will mean much to proper installation. The installer re-emphasizes that the reporting of any difficulties in the use of the system to management is imperative. He, also, strongly emphasizes that the daily record keeping procedure will depend for its effective functioning on ALL departments.

After a series of such conferences, the physical installation, which in fact began many months before, will commence. Here the books of account and manual of procedure which is described in Chapter III preceding will be made. The system will be installed in sections. The actual installation is a very slow process. The installation is usually made at the end of a given accounting period (fiscal period). The designer, of course, has made sure that each employee concerned with the system is made aware of the change. The balances from active records are then transferred to the appropriate books of account. All books and forms to be used are printed and are given to those persons who are to use them.

The system's man should keep in mind the objective and not the

subjective in recommending operational changes inherent in the installation of the new system. He should not be persuaded to change procedures just for the sake of changing things which he finds in existence. He must be especially careful not to become emotional about his assignment and the people with whom he must work in the actual installation of the system.

In this section of his assignment, the designer, now the installer, will have to have the "patience of Job," to say the least. He will have to explain any procedures which appear confusing for the individuals using the system to ensure their understanding of such procedures many, many times. His indefatigably patient attitude during this process will favorably affect the later processes required of his system. He is often required to illustrate and demonstrate many times what he hopes to accomplish with his system. His best device for selling the system to the persons who will have to use it will be to keep assuring them that it will require much less effort than heretofore to accomplish routine tasks required of them.

Lasser states with regard to gradual installation and the need for employee cooperation, the following:

> The importance of step-by-step installation of the system cannot be exaggerated. An attempt to complete the installation of the system at once creates the danger of arousing the antagonism and resistance of employees. More than once an entire system has had to be scrapped because too much was attempted at one time, and employees refused to cooperate, thus bringing about complete failure.[1]

The next step in the installation process will be to actually participate in a day's work with the employees responsible for the accounting records. In this manner, he will be able to effectuate the

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[1] Lasser, J. K., Hanbook of Accounting Methods (New York, 1950), p. 50.

desired follow-through on his original instructions. After two or three days, more or less, depending upon the cooperation of all of the department heads to follow the instructions given to them, the designer can see his brain-child take physical shape.

He, then, proceeds to check every department to see if the persons working in these departments whose functions will affect the accounting department and the newly installed accounting system understand their jobs. He defeats, or hinders insofar as is possible, the employees resistance to change by allowing active participation on the part of the employees. He holds "open forum type" conference to give everyone involved a relaxed feeling. The installer tries to make absolutely certain that each and every routine of the employees' daily operations affecting the business transactions of the hospital be thoroughly understood. Extra time on the part of the installer of the system and the employees, for which management usually offers compensation to the employees involved, might be required to ensure understanding of the system. Anything less than effective communication between the installer and the employees at this point would be highly dangerous. Employees should be allowed to participate fully in the discussions regarding the installation of the system and to feel that they are an integral part of the installation process. This will eliminate the feeling that the system, and its inherent changes, are being shoved down their throats. Patience in the installation process is truly a virtue. It takes skill and intelligence to put the system together, but in the area of installation the emphasis is placed on an easy, relaxed and slow process. After all, there is an old Dutch proverb which says: "A handful of patience is worth more than a bushel of brains."

Many new assignments come with the installation of the accounting system. With management's approval, the following assignments are made. Inventory clerks were assigned to the dietary, housekeeping and medicinal departments. Record sheets concerned with these assignments are given to those persons involved. Specific instructions and illustrations on the use of this memoranda data is carefully explained. These assignments are mentioned here for special emphasis. The system's designer-installer realizing that the information at the source must be handled accurately and correctly if his system is to function properly requested that such assignments be made. A prominent author in the area of systems designs and installations states:

> The entire work of classification, analysis, and interpretation of data is wasted unless the original information is dependable. For example, no amount of analysis of labor costs can be of much value unless the initial time, production, and inspection records are correct. The most exacting clerical work on the part of the stores clerks cannot produce satisfactory results if there is carelessness in the physical count and reporting of goods and materials themselves.
>
> The systems man must look to the accuracy of the original sources of the information - to time reports, production data, movement and inspection reports..., requisitions, and the like, which serve as a basis for ultimate analysis and reports.[1]

The responsibility for the keeping of the books of account outlined on page 29 in the section titled classification of records in this report would be as is outlined below. We have three people in the accounting department who serve on a full-time basis. While these persons will have other assignments, they are specifically responsible for the following.

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[1] Heckert, J. Brooks, Accounting Systems Design and Installation (New York, 1936), p. 153.

Employee A

1. Cash Receipts Journal
2. Accounts Payable Ledger
3. General Journal
4. All Memoranda Ledgers (investments, fixed assets)

Employee B

1. Accounts Receivable Ledger
2. Cash Disbursements Journal
3. Payroll Journal (Check Register)

Employee C

1. General Ledger
2. Payroll Ledger
3. Purchases Journal
4. Services Journal

It is more difficult to make assignments for record keeping which will ensure perfect internal control in small business organizations. The secretary to the administrator will accept all cash receipts and open all in-coming mail. The above assignments were made with the intention of ensuring for the enterprises studied the best possible internal control. Internal control, after all, depends for its effectiveness on the humans who will have access to the records and assets of the enterprise. Notwithstanding this statement of fact, a good accountant seeks to ensure internal control, insofar as is possible, for his clients. Armed with the facts and the under lying principles consistent to good internal check, the designer-installer of this system has sort to insure the assets of the enterprises and the credit reputation of the enterprises through the above assignments. These assignments coupled with the fact that the secretary to the administrator will receive all cash and open all in-coming mail insures for these business units the best possible internal control. The designer-installer respectfully calls the reader's attention to that section of this report

which will describe in greater detail the theory of internal control, its advantages and also its inherent disadvantages.

The designer-installer of the system supervised and checked the use of the system for sometime after its installation. By so doing, she was able to work out inadequacies found in the system. There are always flaws in a system which could not possibly develop until the system was in use. She was able to correct these flaws. She realizes, of course, that revisions will be necessary to system at many intervals due to the expansion of the hospitals' facilities and personnel.

The use of any new system will present problems. Many items will come up which are not problems, but will arise because of the human element. The major problem was that of educating the personnel. The "old regime" would hardly lend itself to the designer's new idea. Many complained that the entire system seemed to be waste of time and that the old way was much better than the new way. The designer-installer, armed with patience, answered the many questions fired at her and made illustrations whenever possible. Much of the "resistance to change" had been overcome through the conferences previously held.

The payroll journal which was a little unusual, or at least different, seem to cause considerable discussion in the accounting department among the clerks and the second most discussed item was complete accrual basis recording for income from patients and the change to the modified cash basis for income tax reporting.

In connection with the payroll journal, it was explained that 58 per cent, and oftimes more, of all checks drawn by the hospitals were for payroll purposes. Hence, the using of the payroll journal served three purposes. First, it facilitated the drawing of the payroll

check. While the payroll check was being written, it was possible for the recorder to make the necessary entry to record information in the payroll journal and on the individual employee's earnings record. These three things were done simultaneously through the use of carbon treated paper. Consequently, a time savings of approximately 75 per cent was effectuated in the drawing of the payroll for the units. Further, at anytime, a summary record of the employees earning records were available. Still further, reports to the taxing authorities were easier to compile and the summary totals from the payroll journal were recorded directly to the cash disbursements journal.

The accounting department had been strongly urged by the designer-installer of the system to record all services on the accrual basis. That is, to debit accounts receivable, by classes, for all services rendered and to credit income, by classes. They, of course, were informed that this accounting procedure would be adjusted to a modified cash basis for reporting to the income tax authorities. This could be accomplished thusly: Any increase in accounts receivable during the taxable year will be deducted from total credits to income accounts. This will show the "cash basis income" to be reported to the taxing authorities from year to year. Payables which would affect expense accounts would be handled in a like manner, except that increases, or decreases, will be off-set against appropriate expense accounts by debits and credits whichever is required.[1] See illustration below affecting accounts receivable in a hypothetical situation.

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[1] Blayton, J. B., Conference with I. R. S., April, 1961, Atlanta, Georgia.

Accounts Receivable at Beginning of Year:	
In-Patients (Private)	$ 301,571.68
In-Patients (Governmental)	204,455.37
Out-Patients	5,111.38
Total	$ 511,138.43
Less: Accounts Receivable at End of Year:	
In-Patients (Private)	$ 382,541.50
In-Patients (Governmental)	259,305.16
Out-Patients	6,483.75
Total	$ 648,375.41
NET CHANGE (INCREASE) IN ACCOUNTS RECEIVABLE	$ 97.236.98
HOSPITAL INCOME ALL CLASSES PER BOOKS FOR THE YEAR	$ 252,622.68
L e s s:	
NET CHANGE IN ACCOUNTS RECEIVABLE	97,232.98
HOSPITAL INCOME-CASH BASIS FOR THE YEAR	$ 155,385.70

This method is acceptable by the Internal Revenue Service and effectuates a tax savings for the taxpaying corporation.

All supplies, food and other, will be ordered by the accounting department for the business units studied upon requisition from the respective departments and approval by the management. Each department will receive its own supplies and check invoices. After invoices are checked and okayed by the respective departments as having been received, they will be turned over to the accounting department for recording purposes. Here, again, it is re-emphasized that information at the source be carefully handled in order to give rise to proper accounting methods in the accounting department.

The designer-installer of the system conscientiously hopes that his system and the procedures which evolve from it will answer the following questions in the affirmative.

Will they supply the information needed?
Will the information be timely and dependable?
Will the information be secured at a minimum cost?[1]

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[1] Heckert, J. Brooks, Accounting Systems Design and Installation (New York, 1936), p. 159.

CHAPTER V

CONCLUSIONS

Inadequate record keeping is a constant companion of embezzlement and has been called by some experts the "crime of honest people." Oftimes, embezzlement occurs where the accounting system is quite adequate. One might ask then, why does it occur? The answer, of course, is that each accounting system must have a built-in safety feature called internal control. Internal control, then, can be defined as that device which will prevent and disclose error and fraud. The honesty of one's employees is the only sure safeguard against embezzlement. Notwithstanding this statement of fact, embezzlement can be discouraged by internal control. The best possible device for this purpose is an adequate accounting system and an adherence to the procedures stemming from the system by those persons using the system.

To a designer of a system, who of necessity must take an objective point of view, the purpose of an accounting system, and reports taken therefore, is: (1) to provide useful financial data for management purposes; and (2) to protect the assets and other resources of the company. Data, to be useful, must be reliable, or accurate, if you prefer the latter term, timely, well organized and presented, and must cover the entire range of management decisions. The assets and other resources to be protected include all the physical and intangible assets, of course, and also such other resources as the business unit's

credit rating and reputation for honest and fair dealing. In achieving these purposes, the accountant and designer of a system makes little distinction between his accounting system and his system of internal control. The two are like twins. They are so closely related that the designer finds that to draw a line between the two is most difficult. Should the designer look at them separately, it is very likely that internal control would be considered the more inclusive term and the accounting system to formulate but one part of the whole. Here the writer is attempting to say that the system of accounts, other records, and related memoranda, coupled with operational procedures, helps to provide information and to safeguard the assets. This is the paramount job designed to control the business enterprise, its activities and its resources.

One specific function of internal control is the safeguarding of the assets of the business unit and a variety of protective devices have been developed to facilitate the performance of this function. To mention a few, cash drawers, safes, safe deposit boxes, vaults, the services of banks and trust companies, locked store rooms, store room clerks, requisition systems, insurance and the like. The desire on the part of the entrepreneur to add extra help to the business unit's system of internal control has actually built the booming insurance business which businessmen experience today. As stated before by this writer, an optimum accounting system will provide certain checks, but the human elements involved require that other clerical proof devices be used such as double-entry bookkeeping systems. Here, a zealous, but possibly feeble, attempt is being presented by the writer to show that accounting control without physical control is possible, but it is

extremely unlikely. Like auditing techniques, an accounting system and its internal control consist of a considerable number of procedures, some of which are built into the system which has been given life through the study of two small general hospitals.

Further, business failures in many instances have been traced to inadequate record keeping. The entrepreneur's ability to distinguish between what really belonged to him and what belonged to his enterprise has been proven time and time again to be the true foundation for success in business ventures. The optimum accounting system shows the entrepreneur his flow of operations. The accounting system informs him, his creditors and other interested persons whether or not his enterprise is functioning properly. On the other hand, however, an entrepreneur who does not have an adequate accounting system, or who will not face the facts presented to him by his accounting system, as long as he has money in the till and in his pocket, is walking through a business world wearing "rose colored glasses" to the inevitable end, failure. He somehow arrives at the conclusion that the words profit and money are synonymous. The accountant knows better and an optimum accounting system would tell the entrepreneur better. Of course, much too late, insolvency and bankruptcy become a public affair.

Trends in growth possibilities for small general hospitals show that more and more individuals are joining hospitalization insurance programs. Many are afforded this privilege because of their employment. At any rate, more people are able to take advantage of hospital services than ever before in the history of our nation. This figure promises to increase even more with recent legislation before Congress with regard to care for the aged under the social security program. Also, the

Hill-Burton Act aids state governments in hospital construction and other areas. As this writer understands it, some of these funds will be available for proprietary institutions. Surveys made by several leading magazines show that based on annual income, families spend sizeable portions of their annual income for medical care.

All of these facts and others reviewed by this writer argue well for the potential growth of the small general hospital units, especially the privately owned enterprise. The clientele (market, if I may) is a ready made one and promises to increase with the increase in population and the growth of our economy.

Realizing that the hospital units studied, operate as free enterprises in a competitive society and their managements realize that competition stems from units similarly situated, this writer believes that the hospital units must give their potential patients (consumers, if I may) the best services for their dollars. It is then, and only then, that these units can increase its percentage of occupancy and its total revenue, and possibly reduce its operating costs, and make possible a larger number of jobs for a larger number of people thereby making their maximum contribution to the total economy of a capitalistic society.

Further realizing that the hospital units must increase their overall productive efficiency in order to remain a going concern, the accounting system, then, becomes one of the most important tools that management can use to chart its trip toward desired goals and objectives. These accounting records, too, give management an ample yardstick to check the results obtained. The historical data and projection possibilities which can be made because of the records furnished by the

accounting system will be an invaluable aid to management. Without the aid of these financial records and other related data, the administrator of the small general hospital should feel a little like the man on a pleasure trip who has suddenly taken a wrong turn on the highway and finds that he is completely lost with the needle on his gasoline gauge pointing much too close to empty.

The hospital administrators, then, are management (businessmen) in the operation of a hospital for its stockholders. These administrators are accountable to the boards of directors and these boards expect results. The accounting system standing alone cannot ensure for management effective operation; nevertheless, without it, management is on the road to disaster, inevitable failure. This is especially true in the present day business world with its many complexities. On the other hand, armed with a sound, not necessarily elaborate, accounting system and persons whose employable skills demonstrate their ability to maintain such a system, management (the administrators) is well on the way to effective operation of the hospital units.

This study would strongly suggest that the incalculably powerful hand of management is made up of the following four fingers: (1) plans; (2) organization; (3) direction; and (4) control. The fifth finger is an optimum accounting system. With this hand, management will wield a deadly weapon to fight the battle for effective management and sound administration in order to reap profits for his enterprise. After all, a manager who makes mediocre profits when the hand on the wheel of cyclical fluctuations points to prosperity, will hardly be able to bring forth any profits at all when the hand moves steathily toward recession and depression. Management of the small general hospital, after all,

should have for its ultimate aim a worthwhile contribution to the Gross National Product, together with the best possible service to its patients.

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A P P E N D I X

ILLUSTRATION OF BOOKS OF ACCOUNT

TABLE I

SAMPLE GENERAL JOURNAL

Date		Explanation	P.R.	Debit		Credit

TABLE II

SAMPLE CASH RECEIPTS JOURNAL

Date	R.No.	Cash DR	Credits — Accounts Receivable: Private	Accounts Receivable: Governmental	Out Patients	Other Items	Receipts Amount

TABLE III

SAMPLE CASH DISBURSEMENTS JOURNAL

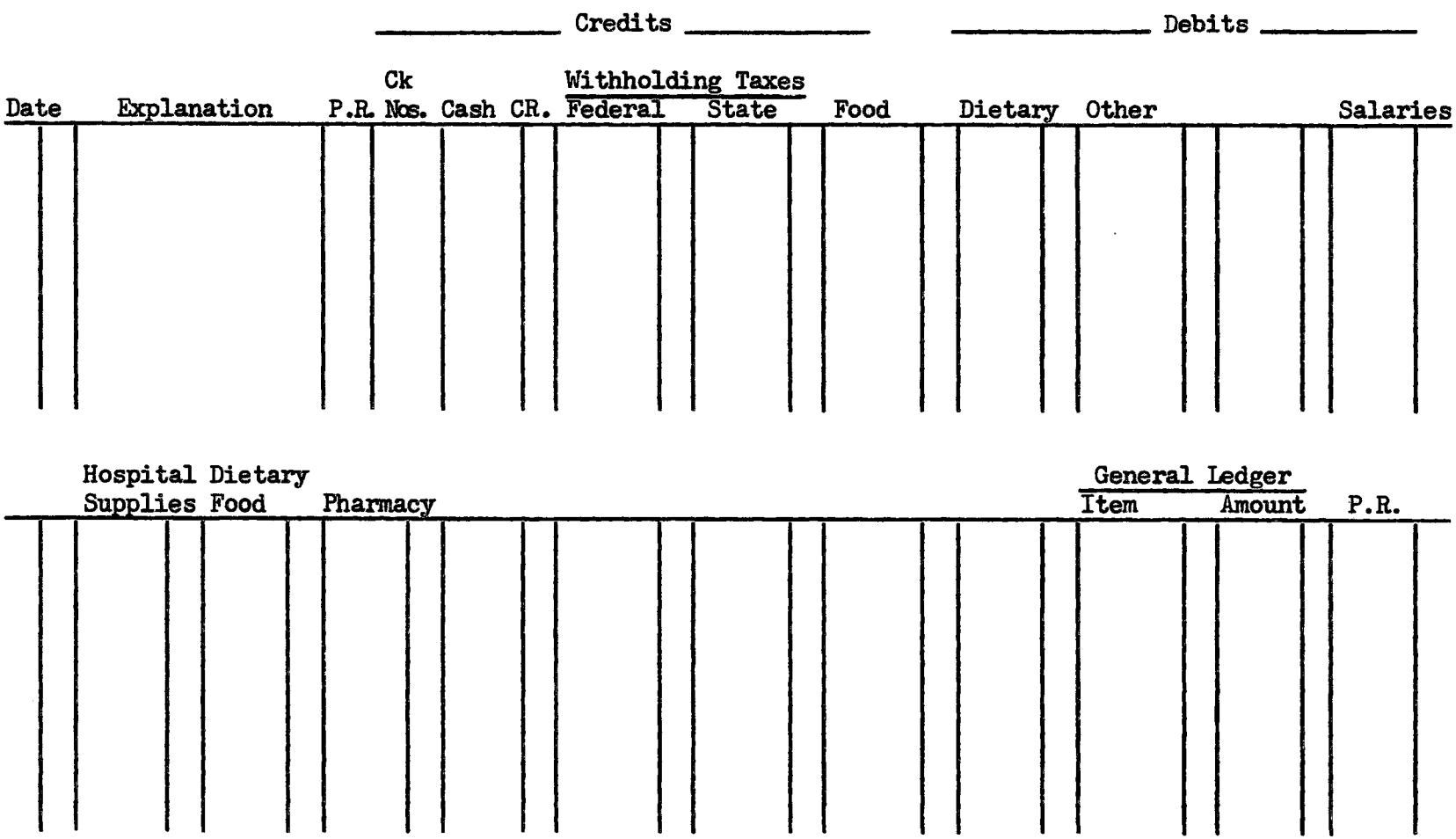

TABLE IV

SAMPLE PURCHASES JOURNAL

Date	From Whom Purchased	Inv. No.	P.R.	Food	Hospital Supplies	Pharmacy

TABLE V

SAMPLE SERVICES JOURNAL

Date	Code	P.R.	In-Patient Private	In-Patient Governmental	Out-Patients

TABLE VI

SAMPLE PAYROLL JOURNAL

		Debit	Credits				
			Withholding Taxes				
Date	Employees	Salaries Dr.	FICA	Income	State	Other	Net Earnings